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C O N F I D E N T I A L SECTION 01 OF 04 ASUNCION 001167

SIPDIS

STATE FOR WHA/EPSC
STATE PASS TO USTR FOR LYANG, MSULLIVAN
USAID FOR AA/LAC ADOLFO FRANCO
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR, ANTONOVICH
COMMERCE ITA SARA COOK
NSC FOR MIKE DEMPSEY, SUE CRONIN
SOUTHCOM FOR POLAD DAN JOHNSON

E.O. 12958: DECL: 09/14/2015

TAGS: [ECON](#) [ETRD](#) [KMCA](#) [KCRM](#) [SNAR](#) [PA](#)

SUBJECT: (C) AMBASSADOR URGES STRONGER ACTION ON CUSTOMS BY
FINANCE MINISTRY

REF: A. ASUNCION 00972

[1](#)B. ASUNCION 00423

Classified By: ECON Chief Patrick O'Reilly for reasons 1.4 (b) and (d).

Summary

[1](#)1. (C) In a meeting requested by the Ambassador, Minister Bergen supported the Ambassador's requests that a new investigative unit to be created in Customs fall directly under the supervision of the Customs Director, and that members of that unit and two others in the Ministry of Finance be subject to vetting. The Ambassador noted the significant USG assistance provided to customs and the Ministry, both through Treasury's Office of Technical Assistance and possibly through the Threshold Program of the Millennium Challenge Account. Problems within Customs were discussed, and Minister Bergen described a labor law he would like to propose to allow for the rapid dismissal of customs and tax employees. The Ambassador also raised the draft anti-money laundering law that has languished in Congress since May 2004. Bergen suggested that a possible trip with 10*15 members of Congress to visit the IDB and IMF might be able to include meetings on money laundering with USG officials. End Summary.

PARAGUAYAN CUSTOMS SERVICE

[1](#)2. (C) In a meeting requested by the Ambassador, he and Finance Minister Bergen recently discussed USG assistance to the Paraguayan Customs Service (Direccion Nacional de Aduanas, or DNA), which is a part of the Ministry. The Ambassador requested the meeting to underscore the significant current and contemplated USG assistance to the DNA, to specifically request that a new vetted investigations unit be placed under the direct supervision of the customs director, and to urge a redoubling of efforts to reduce corruption in the customs service. Econchief and Resident Enforcement Advisor (REA -- from Treasury's Office of Technical Assistance) also attended the meeting. The Vice Minister of Economy and the Director of the Tax Administration accompanied Minister Bergen.

[1](#)3. (C) Despite a courageous Director, Margarita Diaz de Vivar, and impressive increases in revenue collections under the new government, the DNA is riddled with corruption and is the key institution needing reform if the government's goal of formalizing the Paraguayan economy is to be realized. Diaz de Vivar has been fighting with some success to reform Customs, with the help of the new Customs Code that took effect in January 2005, but political pressure from individual members of Congress and resistance within the ranks of customs has been intense. Reportedly, both she and the Director of the Tax Administration received phone calls on a daily basis from members of Paraguay's Congress requesting favors relating to personnel placements, and even, at times, received letters on Congressional stationery with such requests.

[1](#)4. (C) A large segment of Paraguay's economy has prospered from under valuation and the resulting triangulation⁸ where goods are smuggled or imported with under-invoicing into Paraguay for re-export (or re-smuggling) to Brazil and Argentina. A French technical advisor provided by the IMF fled Paraguay earlier this year after receiving what he perceived to be a threat. Diaz de Vivar travels with bodyguards and has received numerous threats against her and her family. Also, an active press campaign to discredit her has been ongoing, all of which attests to the robust resistance to meaningful reform of the DNA.

USG ASSISTANCE TO PARAGUAYAN CUSTOMS

15. (C) The Ambassador noted that the US government has already invested resources in the DNA, primarily through training and other technical assistance provided by REA and other advisors from Treasury. He also pointed out that the USG would probably invest much more. One project currently part of Paraguay's draft Threshold Country Plan to be submitted to the Millennium Challenge Corporation involves significant assistance to the DNA. Also, the Department of Homeland Security has selected the DNA as the second recipient of a Trade Transparency Unit, through which the US and Paraguay would share container-level customs information to identify patterns of trade-based money laundering, pending confirmation of funding (ref B). The TTU will operate within a vetted customs investigations unit in the process of being established with the help of REA.

16. (C) REA has been working to set up several investigations units, along the lines of the IPR-related Specialized Technical Unit within the Ministry of Industry and Commerce (ref A) and the anti-drug unit, SENAD, both of which are supported by INL funds. REA and other Treasury advisors are assisting with the creation of an internal investigations unit within the Ministry of Finance, a tax crimes investigative unit with the Tax Administration, and the customs investigative unit. Approximately 50 existing members and new candidates for the units underwent polygraph examinations in early August.

17. (C) Since negative information was developed during the polygraph examination of the customs official nominated by the Customs Director to head the investigative unit, the Ambassador requested that the DNA investigative unit report directly to the Customs Director, and that the tentative leader of the new unit not be involved. The Ambassador also urged Minister Bergen to redouble efforts within the DNA to combat corruption, to include making sure that the Customs Director has the political backing from the Executive to remove or transfer personnel as well as to resist pressures to take on new people linked to special interests. The Ambassador suggested that more be done to increase inspections of the various ports of entry, both open and undercover, to root out corrupt officials. Finally, the Ambassador requested that Minister Bergen support routine polygraph vetting of members of the three units under his jurisdiction.

Finance Minister's Plans for Reform

18. (C) Minister Bergen agreed with the need to combat corruption within customs, in particular by pursuing court cases that result in real sanctions against corrupt officials. He emphasized that President Duarte has given explicit guidance that no one should be protected in the face of clear evidence of wrongdoing. Both Bergen and Andreas Neufeld, the Director of the Tax Administration, noted how difficult it is to sanction or remove corrupt or ineffective employees given Paraguay's antiquated and overly protective civil service code. The only option many times is to place employees in what is referred to as "the freezer" often a large room where disfavored employees report to work with no duties to perform. While such employees are removed from the direct operations of the ministry or agency, they are usually still in the same building allowing them to disrupt and plot, and the Ministry must continue to pay them.

19. (C) To create the opportunity to truly manage the employees of the Ministry of Finance (to include tax and customs), Minister Bergen wants to propose, at the right opportunity, new legislation to increase the DNA's independence and to convert all positions in tax and customs into positions of confidence, which would give the Minister the power to dismiss problem employees without resorting to the judicial system as is the case now, and would provide the flexibility to increase the salaries of a presumably smaller workforce. The plan would require a large sum up front because any workers dismissed under the plan would have to be paid sizable indemnity packages.

110. (C) Minister Bergen acknowledged that such a plan would be hard to sell to Congress, but he mused that perhaps he could sell it to the public by noting that the employees of the Tax Administration and Customs represent less than two percent of the total GOP workforce of about 180,000. Minister Bergen told us that the local World Bank representative expressed concern that making it easy to dismiss employees would also make it easy to reinsert objectionable employees in the future. Bergen noted that it would be a simple law, but would require resources, and he wondered whether it might be prudent to link such a law to one of the IFI programs.

111. (C) The Ambassador suggested that the International

Financial Institutions (IFIs) might have in-house expertise to help with such a project. He also noted that starting small, with small vetted units could be successful, with the counter-drug agency SENAD a clear example. Tax Administrator Neufeld agreed, and asked if we could help him identify experts with experience in how other tax administrations have successfully reformed to minimize corruption and improve efficiency. REA explained the on-going work with the various investigative units, to include the four-week investigator training course taking place in September/October, and reinforced the need for political will to make the units successful.

MONEY LAUNDERING LAW

112. (C) The Ambassador raised our concerns about the lack of Congressional action on the draft anti-money laundering law presented to Congress in May 2004, and the lack of clear GOP leadership to push for passage. He argued that President Duarte would need to make a priority and publicly say so to spur Congressional action. Minister Bergen expressed support for the law and wondered whether it might be a good idea to include the law as a performance criterion or benchmark in the follow-on IMF program currently under negotiation. He noted that former Minister Borda had done a good job of explaining the importance of the IMF to Congress. The Ambassador responded that while involving the IMF would be fine, Paraguay needs to improve its anti-money laundering regime based on its international commitments.

113. (C) Vice Minister von Horoch noted that some resistance exists to the law from the financial sector, which is concerned the law might give excessive power to prosecutors, and that it might involve duplicative reporting requirements. He also noted that many in the business community are fearful of the interaction between the law and the prevailing practice of under-valuation of imports) selling items for \$10 that were imported with valuations of only \$1 might look like money laundering.

114. (C) Minister Bergen said that he was in discussion with the InterAmerican Development Bank (IDB) to arrange a visit by 10 to 15 members of Congress to Washington to learn more about the IDB and the IMF. He suggested that perhaps some visits with USG experts on money laundering might be useful to help convince them of the need to pass the law. The trip would take place in late October or November.

115. (C) In a subsequent meeting, REA and the Director of the Tax Administration discussed the investigative unit with the Customs Director, Margarita Diaz de Vivar, who was very supportive of our suggestions. She said she would issue an internal decree to officially create the investigative unit reporting directly to her, and that she fully supports regular polygraph examinations. In addition, she agreed to placing the border control unit she is proposing as part of the MCA Threshold Program under the vetted investigative unit, and subjecting the border control unit to polygraphs as well. REA agreed to help Diaz de Vivar identify recruits for the new unit using input from trusted members of the other units, which are farther along in terms of development.

COMMENT

116. (C) Minister Bergen was very receptive to the Ambassador's suggestions and demonstrated the same business person's sensibilities and preference for rapid action that he displayed when he was the Minister of Industry and Commerce. While his idea for a new labor law for the tax administration and customs might prove to be unrealistic, Bergen was willing to support more focused action in the short-term. He appears increasingly comfortable in his relatively new role as Finance Minister and determined to stay the course on reform.

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